

SERIES 24 SUPPLEMENT

INTRODUCTION

The following supplemental information will assist students in preparing for Series 24. An additional Enrichment Exam dealing with questions on both the issues addressed below as well as related issues is being prepared.

I Volume Weighted Average Price (VWAP)

The Volume Weighted Average Price of a stock differs from the average price as higher volume trades have a greater impact on the average price. For example, assume there are 2 trades in XYZ stock: 100 shares at 20 and 300 shares at 21. The average price is 20.50 but the VWAP is 20.75, calculated as follows: 100 shares at 20 represents \$2,000 in value while 300 shares at 21 represents \$6,300 in value. The total value traded is \$8,300. Dividing the total value traded (\$8,300) by the number of shares traded (400) results in a VWAP of \$20.75.

Trading firms are often evaluated on how their executions compare with the VWAP. If the average price of an order to buy is less than the VWAP, the trading desk did a good job. If the average price per share is greater than the VWAP, the firm may lose some or all of the future business of that client. The problem is that the VWAP for the day is calculated after the close but the trader executes during the day, not knowing for certain what the VWAP will be.

FINRA rules require that members, once in receipt of a VWAP order, refrain from engaging in any activity that compromises the customer's interest in favor of the member's proprietary trading interest. Members must also have information barriers in place to prevent the internal disclosure of the VWAP order received. If a representative were to become aware of a large, potentially market-moving VWAP order, the representative can not solicit orders in that stock. Unsolicited orders only.

II Soft Dollars

Soft dollars is a term used to describe payments made by institutional investors such as mutual funds to broker-dealers in return for services such as research. The difference between soft dollars and hard dollars is that instead of paying the broker-dealer with cash (hard dollars), the investor will pay in-kind with brokerage business (soft dollars).

Under SEC guidelines, soft dollars may be used to pay for research reports, software that provides analyses of securities portfolios, services for the benefit of clients and seminar registration fees. Not permitted by the SEC are computer hardware, telecommunication lines, office equipment, reimbursement of travel expenses to attend seminars and other operational overhead such as rent.

III Supervision of Recommendations After a Representative Changes Firms

When a representative changes firms, a major interest of the new firm is ensuring that the new rep retain as much as possible of his/her book of business. A number of the customers serviced may own mutual funds and variable products that the prior firm was authorized to sell pursuant to a dealer agreement. These agreements generally require the sponsor to pay the prior firm various servicing fees (trailer commissions) which benefit the rep.

However, there may be impediments to the rep's ability to continue selling or servicing these investments as well as receiving trailer commissions. For example, the product might be held directly with the issuer or it might be proprietary to the prior firm and not transferable. Even in the case of nonproprietary products, the new firm might not have a dealer agreement with the sponsor. In other cases, the new firm may have such an agreement but the new firm may not be able to receive trailer commissions because these contractually belong to the prior firm.

In these situations, the transferring rep may be tempted to recommend to customers that they replace their existing mutual funds and variable products with other investments, without considering the customer's best interests and the suitability for the customer of those recommendations. A recommendation to liquidate an existing investment must be suitable. In making such a recommendation, a firm may consider the fact that the firm lacks a dealer agreement with the product sponsor and, therefore, the rep cannot provide the customer with the service the customer desires with respect to the product.

To deal with these situations, a firm must have written supervisory procedures in place which include the following:

- * When conducting due diligence concerning a prospective new rep, the new firm should seek to learn the nature of the rep's business and the extent to which he/she offers investment products for which the new firm would need a dealer agreement in order for the rep to sell and provide service. The new firm should determine whether it would seek such agreements;
- * If the new firm is unable or unwilling to service a customer's mutual fund or variable product, the new firm or the rep should advise the customer of this fact, as well as the options the customer may have to continue to hold the investment at the prior firm, before recommending that the customer liquidate or surrender the investment;
- * For a reasonable time period following the hiring of a new rep, the new firm should review replacements recommended by the new rep with a view to identifying any recommendations to liquidate that may be inconsistent with the customer's investment needs. Special supervisory consideration should be given to those transactions involving the replacement of a customer's variable annuity with a "bonus" variable annuity offered by the new firm.

IV Forward Looking Statements

Any statements that are not based on historical fact are forward looking statements. A forward looking statement predicts, projects or uses future events as expectations or possibilities. Although such statements are based on management's estimates and expectations and available competitive, financial and economic data, they are inherently uncertain. A variety of factors could cause the results to differ significantly from what is contained in any forward looking statement. Put another way, these statements are subject to numerous assumptions, risks and uncertainties which change over time.

The SEC, under Section 21E of the Act of 1934, allows issuers to use these statements in their annual reports to shareholders as well as in prospectuses and proxy material.

To do so, issuers must identify these statements by the use of certain prescribed words such as "estimate", "anticipate", "predict", "expect" and "potential".

V Hart Scott Rodino Act of 1976

This Act is an amendment to the antitrust laws and requires both parties to an intended acquisition or merger to file information on the proposed transaction with the FTC. Upon filing, a 30 day waiting period ensues during which time the FTC will make a determination as to whether the proposed transaction violates antitrust laws.

It is unlawful to close the transaction during the waiting period. Although the waiting period is 30 days, the FTC may request additional time to review the information presented. On the other hand, the filing parties may request that the waiting period be terminated early if there are no obvious impediments to the transaction.

Take Note:

The filing requirement is triggered only if the value of the transaction exceeds certain dollar thresholds, which are adjusted upward over time.